

Index of Investor Optimism

A UBS/Gallup Poll of Investor Attitudes

UBS/GALLUP INDEX OF INVESTOR OPTIMISM CONTINUES SLOW BUT STEADY REBOUND

Japan Ties Canada, United States for Least Risky Geographical Investment Areas

China, other Asian Countries and Eastern Europe Show Greatest Strides in Risk Measurement

Middle East, Africa, Russia Remain Highest Risk Areas

NEW YORK, August 22, 2005 – Investor optimism is up slightly again this month with August results of the UBS/Gallup Index of Investor Optimism at 61, compared with 58 last month, 54 in June and 50 in May. Investor sentiment continues its modest rebound since a substantial drop-off in April when the Index dropped from 74 to 52. U.S. investors were surveyed this month about the risks associated with investing in international securities and securities in specific geographical areas of the world. While Eastern Europe, China and other Asian countries showed marked progress in investors' risk assessments, the Middle East, Africa and Russia remain high-risk areas although Russia has shown marked progress in recent years. Interestingly, Japan tied Canada and the United States as the least risky geographical investment areas.

"As globalization makes the world a smaller and smaller place and integrates world economies, investors have become more receptive to investing in foreign markets and international securities," said UBS Associate Strategist, Robin Miranda. "Investments in foreign securities are now seen as an important element of a diverse portfolio and investors are increasingly looking for opportunities that lie in emerging markets."

Despite the fluctuations in the U.S. market over the past eight years, the majority of investors have consistently rated their own portfolios as having moderate risk. The current figures show that 65 percent associate moderate risk with their portfolios, 10 percent associate high-risk, and 25 low-risk, little changed over the past eight years.

In the past seven to eight years there have been some major changes in investors' perceptions of which countries provide the most risk to investment

Today, Japan ties Canada and the United States as the lowest risk geographical areas in the world for investments according to U.S. investors, with Canada scoring a 4.7 and Japan and the United States each scoring a 4.9 (on a scale of one to ten with 10 being the most risky). For Japan, this represents a major improvement from when UBS/Gallup last measured its associated risk in 1998, a time when Japan was in serious financial difficulty. In that survey, Japan scored a 6.7, with 39 percent of investors responding that it represented high risk. The current 4.9 average score for Japan includes just 10 percent of investors giving a high-risk score.

Areas perceived by American investors as the most risky include the Middle East, with an average score of 7.2; Africa, with a score of 6.8; and Russia, with a score of 6.6. For Russia, the current rating

represents a major improvement from seven years ago, when it won the unofficial title of most risky area in the world with a score of 8.7. The poll, taken in September of 1998 clearly reflected the news that Russia had just defaulted on more than \$40 billion in domestic debt. At that time, almost eight in ten investors (79 percent) gave Russia a high score of between 8-10, compared with just 41 percent who give Russia that high a score in the current poll. This past May, Russia announced its plans to repay early 38 percent of its domestic debt, which is likely a contributing factor in the recovering investor sentiment.

Other areas showing a major improvement in the past seven years include China, Eastern Europe and Asia (excluding China and Japan). In 1998, 47 percent of investors gave China a high-risk score, compared with only 23 percent today. 34 percent of investors gave Eastern Europe a high-risk score in 1998 compared with only 19 percent today. Finally, 48 percent of investors gave Asia a high-risk score in 1998 compared with 23 percent today.

Eastern Europe is now much closer to Western Europe in its risk ratings than it was seven years ago. Then Eastern Europe received an average rating of 6.6, with 34 percent of investors giving it a high-risk score. Today, its average score is 5.9 and only 19 percent of investors give it a high-risk score. Over the same seven-year period, Western Europe has shown little change, from an average score of 5.6 in 1998 to 5.4 today.

Last month China allowed its currency, the yuan, to be devalued rather than to continue to be tied to the U.S. dollar as it had been for a decade. Federal Reserve Chairman Alan Greenspan praised the move before Congress, but the UBS/Gallup survey shows that investors are ambivalent about its possible effect on the U.S. economy. Twenty-nine percent say the devaluation will have a positive effect, and almost an equal number, 31 percent, say a negative effect. Another 35 percent expect no effect one way or the other.

Following Russia's debt crisis in 1998, investor confidence in international stocks and international global funds generally, without thinking about any specific area of the world, has steadily recovered. American investors are much more positive now than they were seven years ago. In September 1998, confidence sank. 42 percent of investors gave high-risk ratings to international global funds and 46 percent gave the same ratings to international stocks. Today, only 20 percent and 23 percent respectively give high-risk ratings to these two investment vehicles. The current ratings are similar to those measured in September 1997.

These findings are part of the 89th *Index of Investor Optimism*, which was conducted August 1 to August 14. To track and measure Index changes on an ongoing basis, new samplings are taken monthly. Dennis J. Jacobe, research director for Gallup, said the sampling included 803 investors randomly selected from across the country. For this study, the American investor is defined as any person who is head of a household or a spouse in any household with total savings and investments of \$10,000 or more. Nearly 40 percent of American households have at least this amount in savings and investments. The sampling error in the results is plus or minus four percentage points.

For more than 60 years, the Gallup Organization has been a recognized leader in the measurement and analysis of people's attitudes, opinions and behavior. While best known for the Gallup Poll, founded in 1935, Gallup's current activities consist largely of providing marketing and management research, advisory services and education to the world's largest corporations and institutions.

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Additional information about the *Index of Investor Optimism* can be found at www.ubs.com/investoroptimism

UBS *Index of Investor Optimism* overall trend

	OVERALL INDEX
05 August	61
05 July	58
05 June	54
05 May	50
05 April	52
05 March	74
05 February	82
05 January	76
04 December	79
04 November	69
04 October	62
04 September	74
04 August	77
04 July	88
04 June	95
04 May	71
04 April	73
04 March	85
04 February	97
04 January	108
03 December	104
03 November	93
03 October	69
03 September	54
03 August	61
03 July	54
03 June	77
03 May	42
03 April	66
03 March	5
03 February	9
03 January	38
02 December	52
02 November	41
02 October	29
02 September	60
02 August	52
02 July	46
02 June	72
02 May	90
02 April	89

02 March	121
02 February	92
02 January	115
01 December	88
01 November	84
01 October	86
01 September	50
01 August	76
01 July	74
01 June	85
01 May	90
01 April	81
01 March	82
01 February	77
01 January	96
00 December	106
00 November	130
00 October	132
00 September	147
00 August	160
00 July	143
00 June	149
00 May	155
00 April	140
00 March	150
00 February	168
00 January	178
99 December	174
99 November	148
99 October	139
99 September	160
99 August	149
99 July	166
99 June	146
99 May	163
99 April	168
99 March	151
99 February	167
98 December	141
98 September	147
98 June	160
98 March	161
97 December	151
97 September	151
97 June	152
97 February	128
96 November	125
96 October	124